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COVINGTON COUNTY SCHOOL DISTRICT

Audited Financial Statements  
For the Year Ended June 30, 2007

Presented by:  
Dribben & Associates, Ltd.  
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COVINGTON COUNTY SCHOOL DISTRICT

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COVINGTON COUNTY SCHOOL DISTRICT

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COVINGTON COUNTY SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

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INDEPENDENT AUDITOR'S REPORT ON  
THE BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

October 20, 2008

Superintendent and School Board  
Covington County School District

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Covington County School District as of and for the year ended June 30, 2007, which collectively comprise the Covington County School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Covington County School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Covington County School District, as of June 30, 2007, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2008, on our consideration of the Covington County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 11 through 18 and the Budgetary Comparison Schedule and corresponding notes on pages 47 through 49 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

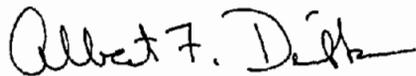
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Al Dribben, CPA

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Covington County School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition, the Schedule of Instructional, Administrative and Other Expenditures – Governmental Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Sincerely,



Albert F. Dribben, CPA  
Dribben & Associates, Ltd.  
McComb, Mississippi

COVINGTON COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

COVINGTON COUNTY SCHOOL DISTRICT

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# Covington County School District

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**SUPERINTENDENT  
OF EDUCATION**  
I.S. "Ike" Sanford, Jr.

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2007

The discussion and analysis of Covington County School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2007. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

### FINANCIAL HIGHLIGHTS

- Total net assets, including the effect of prior period adjustments, decreased \$10,580, which represents less than a 1% decrease from fiscal year 2006.
- General revenues accounted for \$20,628,411 in revenue, or 78% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$5,967,185 or 22% of total revenues.
- The District had \$26,658,387 in expenses; only \$5,967,185 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$20,628,411 were adequate to provide for these programs.
- Among major funds, the General Fund had \$19,116,335 in revenues and \$19,444,940 in expenditures. After net other financing uses of \$1,171,463, the net change in fund balance, before prior period adjustments, for the General Fund was a decrease of \$1,500,068 from the previous year. This decrease is primarily a result of the transfer of funds from the General Fund to the Local School Building Fund to be used for the renovation and construction of school facilities and transfers to governmental funds to cover the cost of operations.
- Capital assets, net of accumulated depreciation, increased by \$790,032
- Long-term debt decreased by \$173,744.

## OVERVIEW OF FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting and include all assets and liabilities.

The statement of net assets presents information on all the District's assets and liabilities, with the differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, non-instructional, sixteenth section and interest and other expenses on long-term debt liabilities.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the governments-wide financial statements, governmental fund financial statements focus on current spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's current financing requirements. Governmental Funds are reported used modified accrual accounting. This method of accounting measures cash and other assets that can be easily converted to cash. The Governmental Funds Statements provide a detailed short-term view of the school district's operations.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial Statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts*. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for all major funds. All other non-major funds are combined together and presented in these reports as other governmental funds.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other information.** In addition to the basis financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's budget process.

The District adopts an annual operation budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major special revenue fund.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and a schedule of instructional, administrative and other expenditures for governmental funds is included in this report.

#### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net assets.** Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$14,956,593 as of June 30, 2007.

The district's net assets are comprised of 1) net assets invested in capital assets, net of related debt, 2) restricted net assets and 3) unrestricted net assets. \$7,523,182 of the District net assets (50%) reflected its investment in capital assets (e. g., land, buildings, building improvements, improvements other than buildings, mobile equipment and furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending. \$7,119,740 of the District's net assets (48%) reflects its restricted net assets. A portion of the restricted net assets is expendable for school based activities, debt services, forestry improvements and unemployment benefits. The remaining portion of the restricted net assets is nonexpendable for the sixteenth section investment purposes. \$313,671 of the District's net assets (2%) reflects its unrestricted net assets.

The District's financial position is a product of several financial transactions including the net result of activities, the acquisition and payment of debt, the acquisition of capital assets and the depreciation of capital assets.

The following tables present a summary of the District's net assets for the fiscal year ended June 30, 2007 and comparative data for the fiscal year ended June 30, 2006.

	<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>Percentage Change</u>
Current assets	\$ 3,886,739	5,632,951	-31.0%
Other assets	4,765,883	3,780,891	26.1%
Capital assets, net	9,120,182	8,330,150	9.5%
<b>Total assets</b>	<u>17,772,804</u>	<u>17,743,992</u>	0.2%
Current liabilities	808,788	595,652	35.8%
Long-term debt outstanding	2,007,423	2,181,167	-8.0%
<b>Total liabilities</b>	<u>2,816,211</u>	<u>2,776,819</u>	1.4%
<b>Net assets:</b>			
Invested in capital assets, net of related debt	7,523,182	6,420,150	17.2%
Restricted	7,119,740	6,897,621	3.2%
Unrestricted	313,671	1,649,402	-81.0%
<b>Total net assets</b>	<u>\$ 14,956,593</u>	<u>14,967,173</u>	-0.1%

The following are significant current year transactions that have had an impact on the Statement of Net Assets:

- Current assets decreased from the previous fiscal year due primarily to a decrease in cash and cash equivalents due to expenditures incurred during the fiscal year for the renovation and construction of school facilities.
- Other assets increased from the previous fiscal year due primarily to the increase in cash and cash equivalents in the Sixteenth Section Principal Fund. Cash and cash equivalents and investments in Sixteenth Section Principal Fund are reported as other (restricted) assets on the Statement of Net Assets.
- Capital assets increased from the previous fiscal year due primarily to new construction during the fiscal year and the purchase of new school buses and various other items of mobile equipment and furniture and equipment
- Current liabilities increased from the previous fiscal year due primarily to the accrual of payables related to construction contracts ongoing at fiscal year end
- Long-term debt outstanding decreased from the previous fiscal year due primarily to principal payments made during the fiscal year on existing long-term debt.
- Net asset invested in capital assets, net of related debt, increased from the previous fiscal year due primarily to the increase in capital assets and the reduction of long-term debt related to capital assets.
- Unrestricted net assets decreased from the previous fiscal year due primarily to the decrease in the fund balance of the General Fund and the increase in non-capital related debt (liability for compensated absences).

**Changes in net assets.** The District's total revenues for the fiscal year ended June 30, 2007 were \$26,595,596. The total cost of all programs and services was \$26,658,387. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2007 and comparative data for the fiscal year ended June 30, 2006.

	<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>Percentage Change</u>
<b>Revenues:</b>			
Program revenues			
Charges for services	\$ 703,504	760,302	-7.5%
Operating grants and contributions	5,263,681	7,225,811	-27.2%
General revenues			
Property taxes	4,093,510	4,121,350	-0.7%
Grants and contributions not restricted	14,535,326	13,983,673	3.9%
Other	1,999,575	1,210,255	65.2%
<b>Total revenues</b>	<u>26,595,596</u>	<u>27,301,391</u>	-2.6%
<b>Expenses:</b>			
Instruction	15,131,481	14,919,664	1.4%
Support services	9,535,863	8,406,370	13.4%
Non-instructional	1,806,901	1,593,848	13.4%
Sixteenth Section	96,629	122,079	-20.8%
Interest and other expenses on long-term liabilities	87,513	101,586	-13.9%
<b>Total expenses</b>	<u>26,658,387</u>	<u>25,143,547</u>	6.0%
<b>Increase in net assets</b>	(62,791)	2,157,844	-102.9%
<b>Net Assets, July 1</b>	14,967,173	12,958,532	
<b>Prior period adjustment</b>	52,211	(149,203)	-135.0%
<b>Net Assets, restated, July 1</b>	<u>15,019,384</u>	<u>12,809,329</u>	17.3%
<b>Net Assets, June 30</b>	<u>\$ 14,956,593</u>	<u>14,967,173</u>	-0.1%

The following are significant current year transactions that have had an impact on the Statement of Activities:

- Program revenues decreased from the previous fiscal year due primarily to a decrease in operating grants and contributions. In the previous fiscal year, the District received revenue from federal sources to reimburse the District for costs associated with the instruction of displaced students and other costs incurred related to Hurricane Katrina.
- General revenues increased from the previous fiscal year due primarily to an increase in unrestricted state grants and contributions and sixteenth section sources.
- Instruction expenses increased from the previous fiscal year due primarily to an increase in salary related expenditures and health insurances and retirement benefits.
- Support services expenses increased from the previous fiscal year due primarily to an increase in salary related expenditures, health insurance and retirement benefits and the purchase of three new school buses in the current fiscal year.

**Governmental activities.** The following table presents, for the fiscal year ended June 30, 2007, and comparative data for the fiscal year ended June 30, 2006, the cost of five major District functional activities: instructional, support services, non-instructional, sixteenth section and interest and other expenses on long-term debt. The table also shows each function's net cost (total cost less charges for the services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and District's taxpayers by each of these functions.

	2007		2006	
	Total	Net(Expense)	Total	Net(Expense)
	Expenses	Revenue	Expenses	Revenue
Instruction	\$ 15,131,481	(12,754,229)	\$ 14,919,664	(11,932,880)
Support services	9,535,863	(7,740,064)	8,406,370	(5,090,784)
Non-instructional	1,806,901	(21,208)	1,593,848	33,894
Sixteenth Section	96,629	(88,188)	122,079	(66,078)
Interest and other expenses on long-term liabilities	87,513	(87,513)	101,586	(101,586)
	<u>\$ 26,658,387</u>	<u>(20,691,202)</u>	<u>\$ 25,143,547</u>	<u>(17,157,434)</u>

- The net cost of governmental activities for fiscal year 2007 in the amount of \$20,691,202 was financed by general revenue, which is made up of primarily property taxes of \$4,093,510 and state revenue of \$14,386,872.
- Investment earnings accounted for \$274,978 of funding.

#### FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the District used fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the District's governmental funds is to provide information on current inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balances may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed fiscal year June 30, 2007, its governmental funds reported a combined fund balance of \$7,854,518. The net change in fund balance for the fiscal year, before prior period adjustments and the increase in reserve for inventory, was a decrease of \$996,683 due primarily to expenditures incurred during the fiscal year related to the renovation and construction of school facilities. \$2,637,793, or 34%, of the fund balance is reported by fund type in the unreserved, undesignated section of the Governmental Funds Balance Sheet. The portion of the fund balance reported in the General Fund is available for spending at the District's discretion. The portion of the fund balance reported in the Special Revenue Funds will be used for school based activities. The remaining fund balance of \$5,216,725, or 66%, is reserved or designated to indicate that it is not available for spending because it has already been committed. This portion of the fund balance is reserved for advances, inventory, prepaid items, unemployment benefits, forestry improvements, capital project purposes and permanent fund purposes.

The General Fund is the principal operating fund of the District. The net change in fund balance for the General Fund for the fiscal year was a decrease of \$1,500,068 due primarily to transfer of funds to the Local School Building Fund to be used for the renovation and construction of school facilities. The net change in fund balance for the Sixteenth Section Interest Fund was a decrease of \$462,923 due primarily to the transfers to the General Fund during the fiscal year. The net change in fund balance for the Sixteenth Section Principal Fund for the fiscal year was an increase of \$992,011 due to sixteenth section sources generated during the fiscal year primarily from oil and gas royalties and earnings on investments. The net change in fund balance for the Other Governmental Funds for the fiscal year was a decrease of \$25,708.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the District has revised the annual operating budget. Significant budget revisions during the fiscal year are as follows:

- Budgeted amounts for revenues from local sources in the General Fund were decreased during the fiscal year to more accurately reflect actual local sources received. Amounts originally budgeted were overstated.
- Budgeted revenue amounts from federal sources in the General Fund were decreased. E-Rate revenues were less than expected because credits on phone bills were not issued from A T & T and Bell South.
- Budgeted amounts for transfers in and transfers out of the General Fund were increased. More funds were transferred from the Sixteenth Section Interest Fund to the General Fund than originally budgeted. Also, transfers from the General Fund to the Local School Building Fund were greater than originally budgeted.
- Budgeted amounts for revenue from sixteenth section sources in the Sixteenth Section Interest Fund were increased to reflect payments from Jefferson Davis County School District for past due amounts for shared townships, an increase in the sale of timber and earnings on investments.
- Budgeted amounts for transfers out of the Sixteenth Section Interest Fund were increased to reflect an increase in the transfers of funds to the General Fund.

A schedule showing the original and final budget amounts compared to the District's actual financial activity for the General Fund is provided in this report as required supplementary information.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

**Capital assets.** As of June 30, 2007, the District's total capital assets, before depreciation, were \$17,171,986, including land, construction in progress, buildings, building improvements, improvements other than buildings, mobile equipment and furniture and equipment. This amount represents a gross increase of \$1,189,710 from the previous year. During the fiscal year, the District began the construction of Hopewell classroom building and the Mt. Olive Activities Building. The District also purchased new school buses and various other items of mobile equipment and furniture and equipment. Total depreciation expense for the year was \$466,865. Total accumulated depreciation as of June 30, 2007 was \$8,051,804, resulting in total net assets of \$9,120,182.

	Capital Assets, Net of Depreciation		Percentage Change
	2007	2006	
Land	\$ 103,204	103,204	0.0%
Construction in progress	627,164	0	
Buildings	6,134,832	6,317,449	-2.9%
Building improvements	482,442	484,003	-0.3%
Improvements other than buildings	72,315	49,263	46.8%
Mobile equipment	1,513,732	1,210,382	25.1%
Furniture and equipment	186,493	165,849	12.4%
Total	<u>\$ 9,120,182</u>	<u>8,330,150</u>	9.5%

**Debt administration.** At June 30, 2007, the District had \$2,007,423 in limited obligation bonds and other long-term debt outstanding, of which \$327,313 is due within one year.

	Outstanding Debt		Percentage Change
	2007	2006	
Limited obligation bonds payable	110,000	215,000	-48.8%
Three mill notes payable	1,487,000	1,695,000	-12.3%
Compensated absences payable	410,423	271,167	51.4%
	<u>\$ 2,007,423</u>	<u>2,181,167</u>	-8.0%

Additional information of the district's long-term debt can be found in Note 6 on page 38 of this report.

## CURRENT ISSUES

The Covington County School District is financially stable. The District is proud of its community support of the public schools. The District has committed itself to financial excellence for many years. In addition, the District's system of financial planning, sound budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have any questions about this report, contact the Superintendent's Office of the Covington County School District, P. O. Box 1269, Collins, MS 39428.

COVINGTON COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS

COVINGTON COUNTY SCHOOL DISTRICT

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COVINGTON COUNTY SCHOOL DISTRICT  
Statement of Net Assets  
June 30, 2007

Exhibit A

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 3,512,631
Due from other governments	275,114
Accrued interest receivable	41,677
Inventories	57,317
Restricted assets	4,765,883
Capital assets, non-depreciable:	
Land	103,204
Construction in progress	627,164
Capital assets, net of accumulated depreciation:	
Buildings	6,134,832
Building improvements	482,442
Improvements other than buildings	72,315
Mobile equipment	1,513,732
Furniture and equipment	186,493
Total Assets	<u>17,772,804</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	563,303
Unearned revenue	234,801
Interest payable on long-term liabilities	10,684
Long-term liabilities, due within one year	
Capital related liabilities	315,000
Non-capital related liabilities	12,313
Long-term liabilities, due beyond one year	
Capital related liabilities	1,282,000
Non-capital related liabilities	398,110
Total Liabilities	<u>2,816,211</u>
<b>Net Assets</b>	
Investment in capital assets, net of related debt	7,523,182
Restricted net assets:	
Expendable:	
School - based activities	1,971,016
Debt service	67,731
Forestry improvements	187,441
Unemployment benefits	85,992
Non-expendable:	
Sixteenth section	4,807,560
Unrestricted	<u>313,671</u>
Total Net Assets	<u>\$ 14,956,593</u>

The notes to the financial statements are an integral part of this statement.

COVINGTON COUNTY SCHOOL DISTRICT  
Statement of Activities  
For the Year Ended June 30, 2007

Exhibit B

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$ 15,131,481	390,074	1,987,178	-	(12,754,229)
Support services	9,535,863	-	1,795,799	-	(7,740,064)
Non-instructional	1,806,901	304,989	1,480,704	-	(21,208)
Sixteenth section	96,629	8,441	-	-	(88,188)
Interest on long-term liabilities	87,513	-	-	-	(87,513)
Total governmental activities	\$ 26,658,387	703,504	5,263,681	-	(20,691,202)
General Revenues:					
Taxes:					
General purpose levies					3,832,790
Debt purpose levies					260,720
Unrestricted grants and contributions:					
State					14,386,872
Federal					148,454
Unrestricted investment earnings					274,978
Sixteenth section sources					1,666,656
Other					57,941
Total General Revenues					20,628,411
Change in Net Assets					(62,791)
Net Assets - Beginning					14,967,173
Prior Period Adjustments:					52,211
Net Assets - Beginning - Restated					15,019,384
Net Assets - Ending					\$ 14,956,593

The notes to the financial statements are an integral part of this statement.

COVINGTON COUNTY SCHOOL DISTRICT  
Balance Sheet - Governmental Funds  
June 30, 2007

Exhibit C

	Major Funds					Total Governmental Funds
	General Fund	16th Section Interest Fund	Local School Building Fund	16th Section Principal Fund	Other Governmental Funds	
<b>ASSETS</b>						
Cash and cash equivalents	\$ 940,571	1,487,428	5	1,565,883	1,084,627	5,078,514
Investments	-	-	-	3,200,000	-	3,200,000
Due from other governments	250,550	-	-	-	24,564	275,114
Accrued interest receivable	-	-	-	41,677	-	41,677
Due from other funds	83,100	-	458,811	-	-	541,911
Inventories	-	-	-	-	57,317	57,317
<b>Total Assets</b>	<b>1,274,221</b>	<b>1,487,428</b>	<b>458,816</b>	<b>4,807,560</b>	<b>1,166,508</b>	<b>9,194,533</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities:</b>						
Accounts payable and accrued liabilities	91,321	11	458,811	-	13,160	563,303
Due to other funds	458,811	-	-	-	83,100	541,911
Deferred revenue	-	-	-	-	234,801	234,801
<b>Total Liabilities</b>	<b>550,132</b>	<b>11</b>	<b>458,811</b>	<b>-</b>	<b>331,061</b>	<b>1,340,015</b>
<b>Fund Balances:</b>						
Reserved for:						
Inventory	-	-	-	-	57,317	57,317
Unemployment benefits	-	-	-	-	85,992	85,992
Forestry improvement purposes	-	-	-	-	187,441	187,441
Debt service purposes	-	-	-	-	78,415	78,415
Permanent fund purposes	-	-	-	4,807,560	-	4,807,560
Unreserved:						
Undesignated, reported in:						
General fund	724,089	-	-	-	-	724,089
Special revenue funds	-	1,487,417	-	-	426,282	1,913,699
Capital project funds	-	-	5	-	-	5
<b>Total Fund Balances</b>	<b>724,089</b>	<b>1,487,417</b>	<b>5</b>	<b>4,807,560</b>	<b>835,447</b>	<b>7,854,518</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,274,221</b>	<b>1,487,428</b>	<b>458,816</b>	<b>4,807,560</b>	<b>1,166,508</b>	<b>9,194,533</b>

The notes to the financial statements are an integral part of this statement.

COVINGTON COUNTY SCHOOL DISTRICT  
 Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets  
 June 30, 2007

Exhibit C-1

	<u>Amount</u>
<b>Total fund balance - governmental funds</b>	<b>\$ 7,854,518</b>
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets are used in governmental activities and are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$8,051,804.	9,120,182
2. Liabilities are not due and payable in the current period and therefore are not reported in the funds.	(2,007,423)
3. Governmental funds recognize interest on long-term debt when it becomes due, however, the Statement of Net Assets recognizes interest as it accrues.	(10,684)
<b>Total Net Assets - Governmental Activities</b>	<b>\$ <u>14,956,593</u></b>

The notes to the financial statements are an integral part of this statement.

COVINGTON COUNTY SCHOOL DISTRICT  
 Statement of Revenues, Expenditures and Changes in Fund Balances  
 Governmental Funds  
 For the Year Ended June 30, 2007

Exhibit D

	Major Funds					Total Governmental Funds
	General Fund	16th Section Interest Fund	Local School Building Fund	16th Section Principal Fund	Other Governmental Funds	
<b>Revenues:</b>						
Local sources	\$ 4,322,419	7,035	5	-	580,621	4,910,080
State sources	14,642,480	-	-	-	635,554	15,278,034
Federal sources	151,436	-	-	-	4,369,537	4,520,973
Sixteenth section sources	-	713,734	-	1,166,874	5,416	1,886,024
Total Revenues	<u>19,116,335</u>	<u>720,769</u>	<u>5</u>	<u>1,166,874</u>	<u>5,591,128</u>	<u>26,595,111</u>
<b>Expenditures:</b>						
Instruction	12,179,814	-	-	-	2,797,505	14,977,319
Support services	7,265,126	-	433,622	-	1,973,947	9,672,695
Noninstructional services	-	-	-	-	1,793,194	1,793,194
Sixteenth section	-	36,246	-	-	60,383	96,629
Facilities acquisition and construction	-	-	653,510	-	-	653,510
Debt service:						
Principal	-	-	-	-	313,000	313,000
Interest	-	-	-	-	89,663	89,663
Total Expenditures	<u>19,444,940</u>	<u>36,246</u>	<u>1,087,132</u>	<u>-</u>	<u>7,027,692</u>	<u>27,596,010</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(328,605)</u>	<u>684,523</u>	<u>(1,087,127)</u>	<u>1,166,874</u>	<u>(1,436,564)</u>	<u>(1,000,899)</u>
<b>Other Financing Sources (Uses):</b>						
Sale of transportation equipment	3,787	-	-	-	-	3,787
Operating transfers in	3,999,725	179,096	1,087,132	-	1,483,710	6,749,663
Other financing sources	485	-	-	-	-	485
Operating transfers out	(5,175,404)	(1,326,542)	-	(174,863)	(72,854)	(6,749,663)
Other financing uses	(56)	-	-	-	-	(56)
Total Other Financing Sources (Uses)	<u>(1,171,463)</u>	<u>(1,147,446)</u>	<u>1,087,132</u>	<u>(174,863)</u>	<u>1,410,856</u>	<u>4,216</u>
Net Change in Fund Balances	<u>(1,500,068)</u>	<u>(462,923)</u>	<u>5</u>	<u>992,011</u>	<u>(25,708)</u>	<u>(996,683)</u>
<b>Fund Balances:</b>						
July 1, 2006	2,262,650	1,950,340	-	3,815,549	802,485	8,831,024
Prior period adjustments	(38,493)	-	-	-	45,099	6,606
July 1, 2006, as restated	<u>2,224,157</u>	<u>1,950,340</u>	<u>-</u>	<u>3,815,549</u>	<u>847,584</u>	<u>8,837,630</u>
Increase (Decrease) in reserve for inventory	-	-	-	-	13,571	13,571
June 30, 2007	<u>\$ 724,089</u>	<u>1,487,417</u>	<u>5</u>	<u>4,807,560</u>	<u>835,447</u>	<u>7,854,518</u>

The notes to the financial statements are an integral part of this statement.

COVINGTON COUNTY SCHOOL DISTRICT  
 Reconciliation of the Governmental Funds Statement of Revenues,  
 Expenditures and Changes in Fund Balances to the Statement of Activities  
 For the Year Ended June 30, 2007

Exhibit D-1

	<u>Amount</u>
<b>Net Change in fund balances - governmental funds</b>	\$ (996,683)
Amounts reported for governmental activities in the Statement of Activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchased amounted to \$1,238,737 and the depreciation expense amounted to \$466,865.	771,872
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Activities.	313,000
3. Governmental funds recognized interest on long-term debt when it becomes due, however, the Statement of Activities recognizes interest as it accrues regardless of when it becomes due.	2,150
4. Gains and losses on the sale or disposal of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds.	(27,445)
5. Increases (decreases) in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are (decreased) increased in the Statement of Activities.	13,571
6. Expenses in the Statement of Activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds.	
Compensated absences	(139,256)
<b>Change in Net Assets of Governmental Activities</b>	\$ <u><u>(62,791)</u></u>

The notes to the financial statements are an integral part of this statement.

COVINGTON COUNTY SCHOOL DISTRICT  
Statement of Net Assets - Fiduciary Funds  
June 30, 2007

Exhibit E

	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 495,505	692,163
<b>Total Assets</b>	<u>495,505</u>	<u>692,163</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	-	638,798
Due to student clubs	-	53,365
<b>Total Liabilities</b>	<u>-</u>	<u>\$ 692,163</u>
<b>Net Assets</b>		
Reserved for endowments	4,434	
Held in trust	491,071	
<b>Total Net Assets</b>	<u>\$ 495,505</u>	

The notes to the financial statements are an integral part of this statement.

COVINGTON COUNTY SCHOOL DISTRICT  
Statement of Changes in Fiduciary Net Assets  
June 30, 2007

Exhibit F

	<u>Private-Purpose Trust Funds</u>
Additions:	
Interest on investments	\$ 6,454
Contributions and donations from private sources	<u>112,578</u>
Total Additions	<u>119,032</u>
Deductions:	
Scholarships awarded	<u>19,526</u>
Total Deductions	<u>19,526</u>
Change in net assets	<u>99,506</u>
Net Assets	
July 1, 2006	<u>395,999</u>
June 30, 2007	<u><u>\$ 495,505</u></u>

The notes to the financial statements are an integral part of this statement.

COVINGTON COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2007

(1) Summary of Significant Accounting Policies.

The accompanying financial statements of the school district have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The most significant of the school district's accounting policies are described below.

A. Financial Reporting Entity.

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the school district's governing board.

As defined by accounting principles generally accepted in the United States of America, the school district is considered a "primary government." The school district is governed by a five-member board, to which each member was elected by the citizens of each defined county district.

B. Basis of Presentation.

The school district's basic financial statement consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

*Government-wide Financial Statements:*

The Statement of Net Assets and Statement of Activities display information about the school district as a whole. They include all funds of the reporting entity except for fiduciary funds, if applicable. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange revenues.

The Statement of Net Assets presents the financial condition of the governmental activities of the school district at year-end. The government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the school district's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the school district, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the school district.

## COVINGTON COUNTY SCHOOL DISTRICT

### Notes to the Financial Statements For the Year Ended June 30, 2007

#### *Fund Financial Statements:*

Fund financial statements of the school district are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category.

#### C. Measurement Focus and Basis of Accounting.

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting, as are the Fiduciary Fund financial statements. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flow takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Program revenues on the Statement of Activities consist primarily of state appropriations and federal awards.

In the fund financial statements, governmental funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Property taxes, state appropriations and federal awards associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

The school district reports the following major governmental funds:

General Fund - This is the school district's primary operating fund. It accounts for all financial resources of the school district, except those required to be accounted for in another fund.

Sixteenth Section Interest Fund - This is a Special Revenue Fund that accounts for expendable revenues derived from the use of sixteenth section lands held in trust by the school district and from investment of sixteenth section funds.

Local School Building Fund - This is a Capital Projects Fund that accounts for revenues used in the construction a new school building, an addition to a building, or a renovation of an existing building.

Sixteenth Section Principal Fund - This is a permanent fund used to account for resources from sixteenth section lands that are legally restricted to the extent that only earnings, and not the principal, may be used for purposes that support the district's programs.

## COVINGTON COUNTY SCHOOL DISTRICT

### Notes to the Financial Statements For the Year Ended June 30, 2007

All other governmental funds not meeting the criteria established for major funds are presented in the other governmental column of the fund financial statements.

Additionally, the school district reports the following fund types:

#### GOVERNMENTAL FUNDS

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted for specific expenditure purposes.

Capital Projects Funds - Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Permanent Funds - Permanent Funds are used to account for resources that are legally restricted to the extent that only earnings, and not the principal, may be used for purposes that support the district's programs.

#### FIDUCIARY FUNDS

Private-purpose Trust Funds - Private-purpose trust funds are used to report all trust arrangements, other than those properly reported elsewhere, under which the principal and income benefit individuals, private organizations or other governments.

Agency Funds - Agency Funds are used to report resources held by the district in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

#### D. Account Classifications.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting* as issued in 2005 by the Government Financial Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 2003* issued by the U.S. Department of Education.

#### E. Encumbrances.

An encumbrance system is not maintained to account for commitments resulting from approved purchase orders, work orders and contracts.

#### F. Cash and Cash Equivalents.

The school district deposits excess funds in the financial institutions selected by the school board. State statutes specify how these depositories are to be selected.

COVINGTON COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2007

Cash and cash equivalents consist of amounts on deposit in demand accounts and certificates of deposit with maturities of three months or less. Cash and cash equivalents are valued at cost.

G. Investments.

The school district can invest its excess funds, as permitted by Section 29-3-113, Miss. Code Ann. (1972), in interest-bearing deposits or other obligations of the types described in Section 27-105-33, Miss. Code Ann. (1972), or in any other type investment in which any other agency, instrumentality or subdivision of the state of Mississippi may invest, except that 100% of said funds are authorized to be so invested.

For accounting purposes, certificates of deposit are classified as investments if they have a maturity greater than three months when acquired.

Investments are reported at fair value.

H. Inventories and Prepaid Items.

Donated commodities are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis).

The costs of governmental fund type inventories are reported as expenditures when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and governmental fund financial statements.

I. Capital Assets.

Capital acquisition and construction are reflected as expenditures in the Governmental Fund statements and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statements.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed assets are reported at estimated fair value at the time received.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported in the government-wide statements.

COVINGTON COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2007

Depreciation is calculated on the straight-line basis for all assets, except land. The following schedule details those thresholds.

	<u>Capitalization Policy</u>	<u>Estimated Useful Life</u>
	\$ 0	0
Buildings	50,000	40 years
Building improvements	25,000	20 years
Improvements other than buildings	25,000	20 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

(\*) The threshold amount will correspond with the amounts for the asset classifications, as listed. See Note 4 for details.

J. Long-term liabilities.

Long-term liabilities are the unmatured principal of bonds, warrants, notes, or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments. In the government-wide Statement of Net Assets, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column. See Note 5 for details.

K. Interfund Transactions and Balances.

Interfund transactions and balances are the result of timing differences between the date expenses/expenditures occur and the date payments are made.

Short-term (due within one year) interfund loan receivables are reported as "due from other funds" and are considered available expendable resources.

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 3 for details for interfund transactions, including receivables and payables at year-end.

COVINGTON COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2007

L. Equity Classifications.

*Government-wide Financial Statements:*

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

*Fund Financial Statements:*

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved classified as designated and undesignated.

Fund reserves are portions of fund equity that are legally segregated for a specific future use or are not available for current operations. Following is a description of fund reserves used by the district:

Reserved for inventory - An account that represents a portion of the fund balance which indicates that inventories do not represent available spendable resources even though they are a component of net current assets.

Reserved for unemployment benefits - An account that represents a portion of the fund balance that is legally restricted for the payment of unemployment benefits.

Reserved for forestry improvement purposes - An account that represents a portion of the fund balance that is legally restricted for improving sixteenth section forest lands.

Reserved for debt service - An account that represents that portion of fund balance in Debt Service Fund which was legally restricted and not available for spending for any other purpose than that for which it is restricted.

Reserved for permanent fund purposes - An account that represents a portion of the fund balance that is legally restricted for investment purposes or borrowing by the school board for capital purposes.

Unreserved, undesignated - An account that represents the portion of fund balance that is expendable available financial resources.

COVINGTON COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2007

M. Property Taxes.

Ad valorem property taxes are levied by the governing authority of the county on behalf of the school district based upon an order adopted by the school board of the school district requesting an ad valorem tax effort in dollars. Since the taxes are not levied and collected by the school district, the revenues to be generated by the annual levies are not recognized until the taxes are actually collected by the tax levying authority.

N. Mississippi Adequate Education Program Revenues.

Revenues from the Adequate Education Program are appropriated on a fiscal year basis and are recorded at the time the revenues are received from the State of Mississippi.

O. Compensated Absences.

Employees of the school district accumulate sick leave at a minimum amount as required by state law or at a greater amount provided by school district policy. Some employees are allowed personal leave and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required by Section 37-7-307(5), Miss. Code Ann. (1972).

The liability for these compensated absences is recorded as long-term liabilities in the government-wide statements. The current portion of this liability is estimated based on historical trends. In the fund financial statements, governmental funds report the compensated absence liability payable from expendable available financial resources only if the payable has matured, for example, an employee retires.

(2) Cash and Cash Equivalents.

The district follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Restrictions on deposits are imposed by statutes as follows:

Deposits. The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school district's deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$8,278,514 and \$1,187,668 respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$3,512,631 and restricted assets \$4,765,883. The restricted assets represent the cash balance of the Sixteenth Section Principal Fund (Permanent Funds) which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$7,843,089.

COVINGTON COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2007

*Custodial Credit Risk – Deposits.* Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2007, none of the district's bank balance of \$7,843,089 was exposed to custodial credit risk.

Investments.

The investment amount of \$3,200,000, which is reported in the Sixteenth Section Principal Fund, is comprised of a non-negotiable certificate of deposit with a maturity date of July 18, 2007, and an interest rate of 5.004%.

(3) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

	<u>Due From</u>	<u>Due To</u>
Governmental Funds:		
General Fund	\$ 83,100	458,811
Local School Building Fund	458,811	
Other governmental funds		83,100
Total Funds	<u>\$ 541,911</u>	<u>541,911</u>

The interfund loans are primarily for amounts loaned between funds to cover expenses while awaiting reimbursement of federal funds.

B. Transfers In/Out.

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General fund	\$ 3,999,725	5,175,404
16th Section Interest Funds	179,096	1,326,542
Local School Building Fund	1,087,132	-
16th Section Principal Funds		174,863
Other governmental funds	1,483,710	72,854
Total Funds	<u>\$ 6,749,663</u>	<u>6,749,663</u>

The above transfers were for distribution of MAEP monies to various funds, the transfer of monies to the Local School Building Fund to be used for construction and the transfer of sixteenth section principal and interest funds.

COVINGTON COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2007

(4) Capital Assets.

The following is a summary of changes in capital assets for governmental activities:

	Balance 7/1/2006	Additions	Deletions	Adjustments	Balance 6/30/2007
<u>Non-depreciable capital assets:</u>					
Land	\$ 103,204				103,204
Construction in Progress		627,164			627,164
Total non-depreciable capital assets	<u>103,204</u>	<u>627,164</u>	<u>-</u>	<u>-</u>	<u>730,368</u>
<u>Depreciable capital assets:</u>					
Buildings	11,405,981				11,405,981
Building improvement	511,339			20,535	531,874
Improvements other than buildings	55,980	26,346			82,326
Mobile equipment	3,207,704	528,982	(84,709)	31,482	3,683,459
Furniture and equipment	698,068	56,245	(41,523)	25,188	737,978
Total depreciable capital assets	<u>15,879,072</u>	<u>611,573</u>	<u>(126,232)</u>	<u>77,205</u>	<u>16,441,618</u>
<u>Less accumulated depreciation for:</u>					
Buildings	(5,088,532)	(182,611)		(6)	(5,271,149)
Building improvement	(27,336)	(21,275)		(821)	(49,432)
Improvements other than buildings	(6,717)	(3,293)		(1)	(10,011)
Mobile equipment	(1,997,322)	(207,060)	62,109	(27,454)	(2,169,727)
Furniture and equipment	(532,219)	(52,626)	36,678	(3,318)	(551,485)
Total accumulated depreciation	<u>(7,652,126)</u>	<u>(466,865)</u>	<u>98,787</u>	<u>(31,600)</u>	<u>(8,051,804)</u>
Total depreciable capital assets, net	<u>8,226,946</u>	<u>144,708</u>	<u>(27,445)</u>	<u>45,605</u>	<u>8,389,814</u>
Governmental activities capital assets, net	<u>\$ 8,330,150</u>	<u>771,872</u>	<u>(27,445)</u>	<u>45,605</u>	<u>9,120,182</u>

An adjustment was made to adjust the cost of a building improvement added in prior year to actual cost. Adjustments were made to furniture and fixtures and mobile equipment to include assets not transferred from prior fixed assets software and to adjust to actual.

COVINGTON COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2007

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 99,627
Support services	346,923
Non-instructional	<u>20,315</u>
 Total depreciation expense	 <u>\$ 466,865</u>

Commitments under construction contracts at June 30, 2007, are summarized as follows:

	<u>Remaining Commitment</u>	<u>Required Future Financing</u>
Hopewell Classroom Building	\$ 500,949	500,949
Mt. Olive Activities Building	1,540,534	1,540,534

(5) Long-term liabilities.

The following is a summary of changes in long-term liabilities and other obligations for governmental activities:

	<u>Balance 7/1/2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2007</u>	<u>Amount Due within one year</u>
A. Limited obligation bonds payable	\$ 215,000	-	(105,000)	110,000	110,000
B. Three mill notes payable	1,695,000	-	(208,000)	1,487,000	205,000
C. Compensated absences payable	271,167	139,256	-	410,423	12,313
 Total	 <u>\$ 2,181,167</u>	 <u>139,256</u>	 <u>(313,000)</u>	 <u>2,007,423</u>	 <u>327,313</u>

A. Limited obligation bonds payable.

Limited obligation bonds are direct obligation and pledge the full faith and credit of the school district. Limited obligation bonds currently outstanding are as follows:

Limited obligation bonds payable.

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Limited obligation bonds, Series 1998	4.70%	06-01-1998	06-01-2008	\$ 890,000	<u>110,000</u>
 Total				 <u>\$ 890,000</u>	 <u>110,000</u>

COVINGTON COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2007

The following is a schedule by years of the total payments due on this debt:

Year Ending June 30	Principal	Interest	Total
2008	110,000	5,170	115,170
Total	<u>\$ 110,000</u>	<u>5,170</u>	<u>115,170</u>

The state aid capital improvement bonds are secured by an irrevocable pledge of certain revenues the district receives from the State of Mississippi pursuant to the Mississippi Accountability and Adequate Education Act, Sections 37-151-1 through 37-151-7, Miss. Code Ann. (1972). The state aid capital improvement bonds are not included in the computation of the debt limit percentage. The debt will be retired from the EEF Building and Buses Fund (2410).

B. Three mill notes payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Limited tax notes	4.69%	05-10-2002	05-10-2012	\$ 2,385,000	1,487,000
Total				<u>\$ 2,385,000</u>	<u>1,487,000</u>

The following is a schedule by years of the total payments due on this debt:

Year Ending June 30	Principal	Interest	Total
2008	205,000	69,740	274,740
2009	317,000	60,126	377,126
2010	333,000	45,259	378,259
2011	338,000	29,641	367,641
2012	294,000	13,789	307,789
Total	<u>\$ 1,487,000</u>	<u>218,555</u>	<u>1,705,555</u>

This debt will be retired from the Three Mill Notes Payable Fund.

COVINGTON COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2007

C. Compensated absences payable.

As more fully explained in Note 1(O), compensated absences payable is adjusted on an annual basis as required by Section 37-7-307(5), Miss. Code Ann. (1972). Compensated absences will be paid from the fund from which the employees' salaries were paid.

(6) Defined Benefit Pension Plan.

**Plan Description.** The school district contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

**Funding Policy.** PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The rate for fiscal year ended June 30, 2007, was 11.30% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2007, 2006 and 2005 were \$1,663,905, \$1,566,826, and \$1,323,355, respectively, which equaled the required contributions for each year.

COVINGTON COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2007

(7) Sixteenth Section Lands.

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools. The school board, under the general supervision of the Office of the Secretary of State, has control and jurisdiction of said school trust lands and of all funds arising from any disposition thereof. It is the duty of the school board to manage the school trust lands and all funds arising there from as trust property. Accordingly, the board shall assure that adequate compensation is received for all uses of the trust lands, except for uses by the public schools. The following are the future rental payments to be made to the school district for the use of school trust lands. These future rental payments are from existing leases and do not anticipate renewals or new leases.

<u>Year Ending June 30</u>	<u>Amount</u>
2008	\$ 84,060
2009	76,148
2010	62,796
2011	48,611
2012	46,720
2013-2017	233,599
2018-2022	233,599
2023-2027	233,337
2028-2032	184,542
Thereafter	<u>257,454</u>
Total	<u>\$ 1,460,866</u>

COVINGTON COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2007

(8) Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities

<u>Explanations</u>	<u>Amount</u>
1. To record capital assets purchase in a prior year and correct balances in prior year depreciation.	\$ 45,605
2. To correct recording of prior year adjustments and correct beginning fund balance in various funds.	6,606
Total	<u>\$ 52,211</u>

Exhibit D - Statement of Revenues, Expenditures and Changes in Fund Balances

<u>Major funds:</u>	<u>Explanations</u>	<u>Amount</u>
General Fund	To correct the recording of prior year adjustments and to correct beginning fund balances.	\$ (38,493)
Other governmental funds	To correct the recording of prior year audit adjustments and correct beginning fund balances.	<u>45,099</u>
Total		<u>\$ 6,606</u>

(9) Litigation

There are two suits pending in the Circuit Court of Covington County. An attorney for the school district's insurance carrier will defend the district in both cases. No estimate of any potential loss to the school district can be made at this time; however, as the district has insurance coverage, it is not believed that there will be a loss that would be material to the financial statements.

COVINGTON COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2007

(10) Subsequent Events.

On March 20, 2008, the board approved a contract with Energy Management Consultants for \$4,100 a month for 48 months or a total of \$196,800.

On April 21, 2008, the board approved the purchase of five new school buses for 2009.

The district approved an advance loan of \$200,000 from the 16<sup>th</sup> Section Principal Fund to pay off a building contractor and to fund needed repairs. The advance loan is to be repaid by February 28, 2009.

On July 21, 2008, the board approved a change order on building project of \$55,585.

On October 20, 2008, the board approved a resolution for an advance loan of \$2,200,000 from the 16<sup>th</sup> Section Principal Fund to recoup funds paid from the District Maintenance Fund and the Sixteenth Section Interest Fund for construction of new classroom buildings at Hopewell Elementary and an activities building at Mt. Olive. This loan was made for 7 years at 4% interest. The district secured an Attorney General Opinion, dated September 23, 2008, regarding this loan prior to making the resolution stating that the loan could be made after the construction in order to recoup district funds paid out.

Also on the above date, a transfer was approved for \$155,990 from 16<sup>th</sup> Section Interest Fund to Local Building Fund to pay the final payment for construction.

(11) Risk Management.

The school district is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The district carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(12) Uncertainties.

In cases where a township is occupied by two or more school districts, state law requires that available sixteenth section funds shall be divided between the school districts lying wholly or partly within such townships in proportion to the number of children enrolled and residing in each school district. In order to determine what portions of available sixteenth section funds are due to or from other school districts, the superintendent of each school district is required to compile lists of such children in compliance with Section 29-3-121, Miss. Code Ann. (1972). This section also allows a district to assert a claim against the custodial school district for its share of the funds no later than twelve (12) months from the end of the calendar year in which the custodial school district collected such funds. The school districts which share townships with Covington County School District and the Covington County School District itself filed lists of children as required. One school district shared revenue with Covington County School District. Covington County School District did not receive payment from one school district. Covington County did not divide sixteenth section revenues with any of the districts in shared townships. No division of sixteenth section revenues has been accrued as a receivable or payable, as the case may be, because the twelve (12) month period after the calendar year that the revenue was received has passed.

COVINGTON COUNTY SCHOOL DISTRICT

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COVINGTON COUNTY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

COVINGTON COUNTY SCHOOL DISTRICT

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COVINGTON COUNTY SCHOOL DISTRICT  
 Budgetary Comparison Schedule  
 General Fund  
 For the Year Ended June 30, 2007

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	\$ 4,637,550	4,307,989	4,322,419	(329,561)	14,430
State sources	14,555,012	14,642,480	14,642,480	87,468	-
Federal sources	493,886	151,436	151,436	(342,450)	-
Total Revenues	<u>19,686,448</u>	<u>19,101,905</u>	<u>19,116,335</u>	<u>(584,543)</u>	<u>14,430</u>
<b>Expenditures:</b>					
Instruction	12,495,961	12,176,737	12,179,814	319,224	(3,077)
Support services	6,615,778	6,704,508	7,265,126	(88,730)	(560,618)
Total Expenditures	<u>19,111,739</u>	<u>18,881,245</u>	<u>19,444,940</u>	<u>230,494</u>	<u>(563,695)</u>
Excess (Deficiency) of Revenues Over Expenditures	574,709	220,660	(328,605)	(354,049)	(549,265)
<b>Other Financing Sources (Uses):</b>					
Sale of transportation equipment	-	3,787	3,787	3,787	-
Operating transfers in	2,544,474	3,450,566	3,999,725	906,092	549,159
Other financing sources	-	485	485	485	-
Operating transfers out	(3,107,000)	(5,175,404)	(5,175,404)	(2,068,404)	-
Other financing uses	-	(56)	(56)	(56)	-
Total Other Financing Sources (Uses)	<u>(562,526)</u>	<u>(1,720,622)</u>	<u>(1,171,463)</u>	<u>(1,158,096)</u>	<u>549,159</u>
Net Change in Fund Balances	12,183	(1,499,962)	(1,500,068)	(1,512,145)	(106)
<b>Fund Balances:</b>					
July 1, 2006, as previously reported			2,262,650		
Prior period adjustment			<u>(38,493)</u>		
July 1, 2006, as adjusted			<u>2,224,157</u>		
June 30, 2007			\$ <u>724,089</u>		

The notes to the required supplementary information are an integral part of this statement.

COVINGTON COUNTY SCHOOL DISTRICT  
 Budgetary Comparison Schedule  
 Sixteenth Section Interest Fund  
 For the Year Ended June 30, 2007

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	\$ -	7,035	7,035	7,035	-
Sixteenth section sources	381,328	713,734	713,734	332,406	-
Total Revenues	381,328	720,769	720,769	339,441	-
<b>Expenditures:</b>					
Sixteenth section	80,376	599,941	36,246	(519,565)	563,695
Total Expenditures	80,376	599,941	36,246	(519,565)	563,695
Excess (Deficiency) of Revenues Over Expenditures	300,952	120,828	684,523	(180,124)	563,695
<b>Other Financing Sources (Uses):</b>					
Operating transfers in	252,038	179,096	179,096	(72,942)	-
Operating transfers out	(10,238)	(762,847)	(1,326,542)	(752,609)	(563,695)
Total Other Financing Sources (Uses)	241,800	(583,751)	(1,147,446)	(825,551)	(563,695)
Net Change in Fund Balances			(462,923)		
<b>Fund Balances:</b>					
July 1, 2006			1,950,340		
June 30, 2007			\$ 1,487,417		

The notes to the required supplementary information are an integral part of this statement.

COVINGTON COUNTY SCHOOL DISTRICT

Notes to the Required Supplementary Information  
For the Year Ended June 30, 2007

(1) **Basis of Presentation.**

The Budgetary Comparison Schedule present the original legally adopted budget, the final legally adopted budget, the actual data on the GAAP basis, variances between the original budget and the final budget, and variances between the final budget and the actual data.

(2) **Budget amendments and revisions.**

The budget is adopted by the school board and filed with the taxing authority. Amendments can be made on the approval of the school board. By statute, final budget revisions must be approved on or before October 15<sup>th</sup> of each year. A budgetary comparison is presented for the general fund and each major special revenue fund consistent with accounting principles generally accepted in the United States of America.

(3) **The General Fund has an excess of expenditures over budget in the amount of \$563,695. The fund with the excess of expenditures over budget is not in violation of state law since the excess resulted from auditor's adjustments.**

COVINGTON COUNTY SCHOOL DISTRICT

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COVINGTON COUNTY SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

COVINGTON COUNTY SCHOOL DISTRICT

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COVINGTON COUNTY SCHOOL DISTRICT  
Schedule of Expenditure of Federal Awards  
For the Year Ending June 30, 2007

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U. S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ 107,475
Child nutrition cluster:		
School breakfast program	10.553	428,222
National school lunch program	10.555	953,468
Summer food service program for children	10.559	32,529
Total child nutrition cluster		<u>1,414,219</u>
Total U. S. Department of Agriculture		<u>1,521,694</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.XXX	148,455
Total U. S. Department of Defense		<u>148,455</u>
<u>U. S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I-grants to local educational agencies	84.010	1,320,069
Vocational education-basic grants to states	84.048	49,198
Safe and drug-free schools and communities-state grants	84.186	24,426
Twenty-first century community learning centers	84.287	105,454
Innovative education program strategies	84.298	17,025
Education technology state grants	84.318	24,727
Class size reduction	84.340	263,460
Rural education achievement program	84.358	95,165
Hurricane education recovery act	84.938	118,655
Total		<u>2,018,179</u>
Special education cluster:		
Special education-grants to states	84.027	833,136
Special education-preschool grants	84.173	63,594
Total		<u>896,730</u>
Total passed-through Mississippi Department of Education		<u>2,914,909</u>
Total U.S. Department of Education		<u>2,914,909</u>
Total for All Federal Awards		<u>\$ 4,585,058</u>

NOTES TO SCHEDULE:

This schedule was prepared using the same basis of accounting and the same significant of accounting policies, as applicable used for the financial statements.  
The expenditure amounts include transfers out.  
The pass-through entities did not assign identifying numbers to the school district.

Covington County School District  
 Schedule of Instructional, Administrative and Other Expenditures - Government Funds  
 For the Year Ended June 30, 2007

Expenditures	Total	Instruction and Other			
		Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 20,190,769	15,458,763	838,458	1,482,458	2,411,090
Other	7,405,241	1,856,337	548,358	35,121	4,965,425
<b>Total</b>	<b>\$ 27,596,010</b>	<b>17,315,100</b>	<b>1,386,816</b>	<b>1,517,579</b>	<b>7,376,515</b>

Total number of students \* 3,130

Cost per student \$ 8,817 5,532 443 485 2,357

For purposes of this schedule, the following columnar descriptions are applicable:

**Instruction and Other Student Instructional Expenditures** - includes the activities dealing with the interaction between teachers and students. Included here are the activities of teachers, teacher's aides or classroom assistants of any type. (all the 1000, 2100, & 2200 functional codes)

**General Administration** - includes expenditures for the following functions: Support Services - General Administration (2300s); and Support Services - Business (2500s)

**School Administration** - includes expenditures for the following function :Support Services - School Administration (2400s)

**Other** - includes all expenditure functions not included in Instruction or Administration Categories

\* Includes the number of students reported on the ADA report for month 9, which is the final submission for the fiscal year.

COVINGTON COUNTY SCHOOL DISTRICT

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

COVINGTON COUNTY SCHOOL DISTRICT

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**CERTIFIED PUBLIC ACCOUNTANT**

**AICPA/MSCPA**

INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

October 20, 2008

Superintendent and School Board  
Covington County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Covington County School District as of and for the year ended June 30, 2007, which collectively comprise Covington County School District's basic financial statements and have issued our report thereon dated October 20, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the school district's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all the deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in the internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Finding and Questioned Costs as Findings 2007-1 and 2007-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the school district's internal control.

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Al Dribben, CPA

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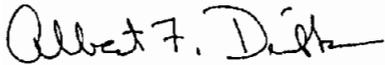
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management on the school district in a separate letter dated October 20, 2008, which is included in this report.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,



Albert F. Dribben, CPA  
Dribben & Associates, Ltd.  
McComb, Mississippi



The CPA. Never Underestimate The Value.®

# Dribben & Associates, Ltd.

CERTIFIED PUBLIC ACCOUNTANT

AICPA/MSCPA

AN INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

October 20, 2008

Superintendent and School Board  
Covington County School District

## Compliance

We have audited the compliance of the Covington County School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The school district's major federal programs are identified in the summary of auditor's results section of the schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the school district's management. Our responsibility is to express an opinion on the school district's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the school district's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the school district's compliance with those requirements.

In our opinion, Covington County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

## Internal Control Over Compliance

The management of the Covington County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the school district's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over compliance.

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Al Dribben, CPA

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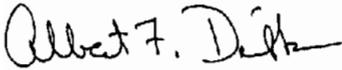
A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our considerations of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in the internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,



Albert F. Dribben, CPA  
Dribben & Associates, Ltd.  
McComb, Mississippi

COVINGTON COUNTY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
STATE LAWS AND REGULATIONS

COVINGTON COUNTY SCHOOL DISTRICT

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CERTIFIED PUBLIC ACCOUNTANT

AICPA/MSCPA

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

October 20, 2008

Superintendent and School Board  
Covington County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Covington County School District as of and for the year ended June 30, 2007, which collectively comprise Covington County School District's basic financial statements and have issued our report thereon dated October 20, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by Comptroller General of the United States.

Section 37-9-18(3), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds". As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss Code Ann. (1972), disclosed the following instance of noncompliance. The noncompliance is reported in finding number 1 below. The district reported \$4,166 of classroom supply funds carried over from previous years.

Section 37-9-18(3)(b), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure correct and appropriate coding at the function level. The audit must include a report showing the correct and appropriate functional level expenditure codes in expenditures by the school district."

The results of our procedures to test compliance with the requirement of Section 37-9-18(3)(b), Miss. Code Ann. (1972), disclosed the following instance of noncompliance related to incorrect or inappropriate functional level expenditure coding. The noncompliance is reported in finding number 2 below.

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed the following immaterial instances of noncompliance with other state laws and regulations. Our findings and recommendations and your responses are as follows:

Finding #1 As reported in the prior year's audit and per Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), states that "Local school districts shall allocate classroom supply funds equally among all classroom teachers in the school district. For purposes of this subparagraph, "teacher" means any employee of the school board...who is required by law to obtain a teacher's license..., but shall not include a federally funded teacher."

We noted in our testing of the classroom supply allocation that 2 federally funded teachers were allocated a portion of the classroom supply monies.

This noncompliance occurred because the district did not follow the restrictions of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972).

Allocation of classroom supplies and instructional materials funds to federally funded teachers could result in the district allowing some teachers to spend other teachers' allocations.

Recommendation: We recommend that only teachers holding a teaching license that are not federally funded be given the classroom supply allocation

Response: The District has established a more accurate way of determining which teachers will receive classroom supply allocations. The directors of federal funds, payroll and the Business Manager will make the determination.

Finding #2 Per Section 37-9-18(3)(b) of the Miss. Code Ann. (1972), an audit shall include testing of the expenditure coding at the function level.

During our testing of expenditures, we noted that the coding of the following expenditures was incorrect:

1. Coding for the purchase of 3 copiers was to Code 2620—Operating Building Services rather than to Code 1130 Middle School Programs and to Code 1250 Title I Programs.
2. Coding for the purchase of buses was to Code 4500—16<sup>th</sup> Section Management Fees rather than to Code 2720—Vehicle Operation Services.

This miscoding was caused by error and was not an intentional miscoding of expenditures.

Miscoding of expenditures can cause inaccurate financial statements and can possibly cause the district to exceed its original budget.

Recommendation: We recommend that the school district comply with Section 37-9-18(3)(b) of the Miss. Code Ann... (1972).

Response: The District will comply with Section 37-9-18(3) of MS Code Ann. (1972). Procedures have been put into place to help ensure invoices are coded correctly.

Finding #3 As reported in the prior year's audit report, Section 29-3-47, Miss. Code Ann. (1972), states, "For its services the State Forestry Commission shall be entitled to receive its actual expenses incurred in the discharge of the duties herein imposed. In order to provide funds with which to pay for the general

supervision and sale of forest products, fifteen percent (15%) of all receipts from the sale of forest products shall be placed by the board in a forestry escrow fund and reserved to pay for work performed by the State Forestry Commission. Such payments shall be the actual expenses incurred by the commission as substantiated by itemized bills presented to the board.”

During our test of timber sales, we noted that the district did not properly allocate the required amount of timber sales revenue to the Forestry Escrow Fund; therefore, \$7,250 of timber sales revenue was not recorded in the Forestry Escrow Fund as required in Section 29-3-47, Miss. Code Ann. (1972).

Due to management’s inexperience with timber sales and Forestry Escrow Fund requirements, the district was not in compliance with Section 29-3-47, Miss. Code Ann. (1972).

By the district not recording fifteen percent (15%) of all timber sales to the Forestry Escrow Fund, the fund was understated in the amount of \$7,250 and this amount would not have been available for payment of the State Forestry Commission’s expenses related to the sales. Once this mistake was brought to the district’s attention by the auditor, the district transferred the amount to the Forestry Escrow Fund.

**Recommendation:** We recommend the district comply with Section 29-3-47, Miss. Code Ann. (1972), by allocating fifteen percent (15%) of all timber sales into the Forestry Escrow Fund.

**Response:** The District will comply with Section 29-3-47, Miss. Code Ann. (1972) and allocate 15% of all timber sales into the Escrow Fund.

**Finding #4:** As reported in the prior year’s audit report, Section 29-3-119(4), Miss. Code Ann. (1972), states, “The school district having control of the sixteenth section or lieu lands in the township (the “custodial school district”) shall pay to each other school district lying wholly or partly in the township which is entitled to a part of the township funds the district’s pro rata share of the available township funds, as determined from the lists of children prepared pursuant to Section 29-3-121, ...Any school district entitled to such funds which is not paid promptly may assert a claim against the custodial school district for its share of the funds no later than twelve (12) months from the end of the calendar year in which the custodial school district collected such funds.”

During our test of sixteenth section revenue, we noted that the district failed to distribute funds generated from its sixteenth section property between school districts lying partly within townships of which Covington County School District is the custodial school district.

Documentation we reviewed indicates Covington County School District received revenue from five townships that it should have shared with Jones and Simpson County school districts; however, no liability was recorded for these amounts because the time had passed for the districts to assert a claim for their share of the funds as required by Section 29-3-121, Miss. Code Ann. (1972).

Due to the inexperience of management with sixteenth section requirements, the district was not in compliance with Section 29-3-119(4), Miss. Code Ann. (1972).

Noncompliance with Section 29-3-119(4), Miss. Code Ann. (1972), could result in the district understating expenditures in sixteenth section funds.

**Recommendation:** We recommend that the district comply with Section 29-3-119(4), Miss. Code Ann. (1972), which requires the custodial district to share the sum of all revenues less expenditures derived from shared townships with other districts.

**Response:** The District will comply with Section 29-3-119(4) of the Miss. Code Ann. (1972) and share the sum of all revenues less expenditures derived from shared townships with other districts.

**Finding #5** In our test of 26 individually significant expenditures, totaling \$427,862, we noted that two invoices were not paid within the forty five (45) day period as per Section 31-7-305, Miss. Code Ann. (1972).

Internal controls over the payment of invoices on a timely basis were not used effectively to prevent the late payment of these two invoices.

The late payment of invoices can cause the school district to be liable for interest owed to the vendor at a rate of one and one-half percent (1 ½%) per month on the unpaid balance from expiration of the forty five (45) day period until such time as the payment is mailed or otherwise delivered.

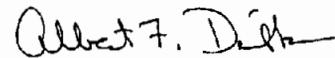
**Recommendation:** We recommend that internal controls be applied to all purchases so as to ensure payment within the legal forty-five day limit to avoid liability for interest.

**Response:** The District has established better internal controls by separating duties in order to pay invoices on a more timely basis.

We will review, on the subsequent year's audit engagement, the findings in this report to insure that corrective action has been taken.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,



Albert F. Dribben, CPA  
Dribben & Associates, Ltd.  
McComb, Mississippi

COVINGTON COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

COVINGTON COUNTY SCHOOL DISTRICT

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COVINGTON COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007

Section 1: Summary of Auditor's Results

Financial Statements

- |   |   |             |
|---|---|-------------|
| 1 | Type of Auditor's report issued on the financial statements:                              | Unqualified |
| 2 | Material noncompliance relating to the financial statements?                              | No          |
| 3 | Internal control over financial reporting:  |             |
|   | a. Material weaknesses identified?  | No          |
|   | b. Significant deficiencies identified that are not considered to be material weaknesses? | Yes         |

Federal Awards:

- |    |  |               |
|----|--|---------------|
| 4  | Type of auditor's report issued on compliance for major federal programs:  | Unqualified   |
| 5  | Internal control over major programs:  |               |
|    | a. Material weakness identified?   | No            |
|    | b. Significant deficiency identified that is not considered to be material weakness?   | None reported |
| 6  | Any audit finding reported as required by Section __.510(a) of Circular A-133?   | No            |
| 7  | Federal programs identified as major programs:   |               |
|    | a. Nutrition cluster   |               |
|    | School breakfast program   | CFDA#: 10.553 |
|    | National school lunch program  | CFDA#: 10.555 |
|    | Summer food service program for children   | CFDA#: 10.559 |
|    | b. Title I grants to local educational agencies  | CFDA#: 84.010 |
|    | c. Special education cluster   |               |
|    | Special education - grants to states   | CFDA#: 84.027 |
|    | Special education - preschool grants   | CFDA#: 84.173 |
| 8  | The dollar threshold used to distinguish between type A and type B programs:   | \$ 300,000    |
| 9  | Auditee qualified as low-risk auditee?   | No            |
| 10 | Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section __.315(b) of OMB Circular A-133? | Yes           |

COVINGTON COUNTY SCHOOL DISTRICT

Section 2: Financial Statement Findings:

Significant Deficiencies Not Considered to be Material Weaknesses

2007-01 Controls Should Be Strengthened Related to the Purchasing/Expenditure Function

Finding

Management is responsible for establishing a proper internal control system to ensure proper financial accountability and reporting of all funds. Board policy DJEG requires that requisitions and purchase orders be properly prepared and approved before placing orders.

During our tests of accounts payable expenditures, all of the activity and club fund expenditures for one month, general fixed asset additions, and individually significant items (which included expenditures of Title I, Special Education and Child Nutrition), we noted the following:

- A. Several instances of invoices not being cancelled or marked paid.
- B. One instance of no signed receipt for goods.
- C. Four instances of invoices exceeding purchase order amounts.
- D. One instance of invoice dated prior to purchase order date.
- E. One instance of purpose on purchase order not matching invoice documentation.
- F. One instance of purchase of athletic pass from the Mississippi High School Activities Association, Inc. for a board member. However, the pass request form states that the board member must reimburse the school for the cost. The board member was not informed of the need to reimburse the school for the cost of the pass.

Proper internal controls were not in place to ensure requisitions and purchase orders were completed prior to a purchase being made. Controls were not in place to ensure that the receipt of the product or services were checked to make sure all products ordered were received in good condition or that services had been performed as expected. Control over approval for payment was not in place for inspecting the goods ordered and the goods received.

Inadequate internal controls related to the expenditures and disbursements cycle could result in misappropriation or loss of assets.

COVINGTON COUNTY SCHOOL DISTRICT

Recommendation

We recommend that the district implement procedures to comply with board policies which require requisitions and purchase orders be completed and approved before purchases are made and require all invoices be approved for payment prior to payment to the vendor. We recommend that athletic passes purchased for board members be reimbursed by those board members prior to issuing.

2007-02

Controls over Receipts Should Be Strengthened for Activity Funds

Finding

Management is responsible for ensuring that all revenue is correctly earned and recorded in order to safeguard the assets of the district.

During our test of activity and club fund revenue, we noted the following weaknesses:

1. Improper voiding of a receipt at Collins Elementary.
2. Failure to show type of payment (cash, check, etc.) at Seminary High School

These weaknesses occurred due to inadequate internal controls related to the collection of revenue.

Inadequate internal controls related to activity and club fund revenue collection and proper receipting could result in a loss of assets and improper revenue recognition.

Section 3: Federal Award Findings and Questioned Costs

The results of our tests did not disclose any findings and questioned costs related to the federal awards.

COVINGTON COUNTY SCHOOL DISTRICT

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COVINGTON COUNTY SCHOOL DISTRICT

AUDITEE'S CORRECTIVE ACTION PLAN

COVINGTON COUNTY SCHOOL DISTRICT

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# Covington County School District

## BOARD OF EDUCATION

Terry Bryant  
Sammy H. Herrin  
Andrew Keys  
Robert "Bob" McNair  
Dr. Ray Strebeck

P.O. Box 1269  
Collins, Mississippi 39428  
Telephone 601-765-8247  
Fax 601-765-4101

SUPERINTENDENT  
OF EDUCATION  
I.S. "Ike" Sanford, Jr.

ASSISTANT  
SUPERINTENDENT  
Helen D. Milloy

## FINANCIAL & COMPLIANCE AUDIT DIVISION

As required by Section\_\_\_\_.315© of the OMB Circular A-133, the Covington County School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2007:

<u>Finding</u>		<u>Corrective Action Plan Details</u>
2007-01	a.	Name of Contact Person Responsible for Correction Action Linda Herrington Business Manager 601-765-8247
	b.	Corrective Action Planned: The District and implemented procedures that will comply with board policies which state that all purchase orders will be completed and approved before purchases are made. Also, all invoices are being approved by signed by principal/director of each location and a final approval for payment is made by the Business Manager.
	c.	Anticipated Completion Date: The new procedures were put into effect in the 2007-2008 school year
2007-2	a.	Linda Herrington Business Manager 601-765-8247
	b.	Corrective Action Planned: Staff developments held twice a year and memos sent as reminders to bookkeepers concerning the receipting of revenue for the activity and club accounts.

c.

These procedures are reiterated in each staff development and memo.

Sincerely,

A handwritten signature in black ink, appearing to read "I.S. Sanford, Jr.", written in a cursive style.

I.S. Sanford, Jr.  
Superintendent of Education

COVINGTON COUNTY SCHOOL DISTRICT

AUDITEE'S SUMMARY OF PRIOR YEAR AUDIT FINDINGS

COVINGTON COUNTY SCHOOL DISTRICT

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# Covington County School District

## BOARD OF EDUCATION

Terry Bryant  
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## SUPERINTENDENT OF EDUCATION

I.S. "Ike" Sanford, Jr.

## ASSISTANT SUPERINTENDENT

Helen D. Milloy

### SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Dribbens & Associates, Ltd  
P.O. Box 1411  
McComb, Ms 39649-1411

Gentlemen:

Covington County School District respectfully submits the following summary schedule of prior audit findings relative to federal awards.

06-5 Linda Herrington  
Business Manager  
601-765-8247

Request for cash should only be for immediate needs.

Compliance requirement: Cash Management

Recommendation: The district should implement policies and procedures to ensure compliance with the cash management requirements for federal program funds, which require the district to minimize the amount of time program funds are held before disbursement.

Status: In February, 2008 the District began new procedures for determining the amount of funds to be requested. The Business Manager now requests funds needed instead of requesting excess funds.

06-6 Requests for cash should only be for immediate needs.

Compliance requirement: Cash Management

**Recommendation:** The district should implement policies and procedures to ensure compliance with the cash management requirement for federal program funds, which requires the district to minimize the amount of time program funds are held before disbursement.

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Sincerely,

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I.S. Sanford, Jr  
Superintendent